

which the member or member organization acted as manager or co-manager of a secondary offering within ten (10) calendar days following the effective date of the offering. This prohibition shall not apply to research reports issued under Securities Act Rule 139 regarding issuers whose securities are actively traded, as defined in Securities Exchange Act Rule 101(c)(1) of Regulation M.

(3) A member or member organization may permit exceptions to the prohibitions in paragraphs (f)(1) and (2) (consistent with other securities laws and rules) for research reports that are issued due to significant news or events, provided that such research reports are pre-approved in writing by the *member's or member's organization's* Legal or Compliance Department.

(4) *No member or member organization which has acted as a manager or co-manager of a securities offering may issue a research report or make a public appearance within fifteen (15) days prior to or after the expiration, waiver or termination of a lock-up agreement or any other agreement that the member or member organization has entered into with a subject company and its shareholders that restricts or prohibits the sale of the subject company's or its shareholder's securities after the completion of a securities offering. A member or member organization may permit exceptions to the prohibitions in paragraph (f)(4) (consistent with other securities laws and rules) for research reports that are issued as a result of the development of significant news or events, provided that such research reports are pre-approved in writing by the member's or member organization's Legal or Compliance Department.*

(5) *If a member or member organization withdraws its research coverage of a subject company, notice of this withdrawal must be made. Such notice must be made in the same manner as when research coverage was first initiated by the member or member organization and must include the member's or member organization's final recommendation or rating.*

Prohibition of Offering Favorable Research for Business

(g) No member or member organization may directly or indirectly offer a favorable research rating or specific price target, or offer to change a rating or price target, to a subject company as consideration or inducement for the receipt of business or for compensation.

Restrictions on Compensation to Associated Persons

(h)(1) No member or member organization may compensate an associated person(s) for specific investment banking services transactions. An associated person may not receive an incentive or bonus that is based on a specific investment banking services transaction. However, a member or member organization is not prohibited from compensating an associated person based upon such *member's or member organization's* [person's] overall performance, including [services provided to] the *performance of the* Investment Banking Department (see Rule 472(k)(2) for disclosure of such compensation).

(2) *An associated person's compensation must be reviewed and approved at least annually by a committee which reports to the Board of Directors or where the member or member organization has no Board of Directors to a senior executive officer of the member or member organization. Such committee may not include representatives from the member's or member organization's Investment Banking Department. The committee must, among other things, consider the following factors, if applicable, when reviewing an associated person's compensation:*

- i. *The associated person's individual performance, (e.g., productivity, and quality of research product);*
- ii. *The correlation between the associated person's recommendations and stock price performance;*
- iii. *The overall ratings received from clients, sales force, and peers independent of the Investment Banking Department, and other independent rating services.*

The committee may not consider as a factor in determining the associated person's compensation, his or her contributions to the member's or member organization's investment banking business.

The committee must document the basis upon which each associated person's compensation was established. The annual attestation required by Rule 351(f) must certify that the committee reviewed and approved each associated person's compensation and has documented the basis upon which such compensation was established.

General Standards for All Communications

(Formerly positioned at Supplementary Material .30)

(i) No change

Specific Standards for Communications (Formerly positioned at Supplementary Material .40)

(j) No change (except for deletion of .40(2)).

Disclosure

(k)(1) Disclosures Required in Research Reports and Public Appearances

Disclosure of Member's, Member Organization's and Associated Person's Ownership of Securities

(i) A member or member organization must disclose in research reports and an associated person must disclose in public appearances:

a. If, as of the last day of the month before the publication or appearance (or the end of the second most recent month if the publication or appearance is less than ten (10) calendar days after the end of the most recent month), the member or member organization or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company. The member or member organization must make the required beneficial ownership computation no later than ten (10) calendar days after the end of the prior month. Computation of beneficial ownership of securities must be based upon the same standards used to compute ownership for purposes of the reporting requirements under Section 13(d) of the Securities Exchange Act of 1934,

b. If the associated person or a household member has a financial interest in the securities of the subject company, *and the nature of the financial interest, including, without limitation, whether it consists of any option, right, warrant, futures contract, long or short position, or*

c. Any other actual, material conflict of interest of the member or member organization, which the associated person knows, or has reason to know, at the time the research report is issued or at the time the public appearance is made.

Member, Member Organization and Affiliate Compensation

(ii) A member or member organization must disclose in research reports if the member or member organization or its affiliates: a) Has managed or co-managed a public offering of equity securities for the subject company in the past twelve (12) months; b) has received compensation for investment banking services from the subject company in the past twelve (12) months; or c) expects to receive or intends to seek compensation for investment banking